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# The Impact of Fiscal Sovereignty in the Field of Real Estate Tax on Municipal Revenues

**Patrycja Świerczek-Dutka**

Wroclaw University of Economics and Business

e-mail: patrycja.swierczek-dutka@ue.wroc.pl

ORCID: 0000-0002-7331-1016



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## Abstract

**Aim:** The aim of the article was to assess the significance of the fiscal sovereignty granted to municipalities in Poland in the real estate tax from the perspective of its impact on their revenues. The study determined the scale and nature of the use of fiscal sovereignty instruments by various types of municipalities and to analyse the financial impact of these actions.

**Methodology:** The research encompassed all municipalities in Poland (including cities with county rights as well as urban, rural, and urban-rural municipalities), utilising data provided by the Ministry of Finance for the years 2018-2023. Empirical research methods such as observation, comparison, and measurement were employed, along with descriptive statistics techniques.

**Findings:** The analysis indicated that from 2018 to 2023 the exercise of fiscal sovereignty by municipalities resulted in a total revenue decrease of PLN 20.2 billion (13% of total real estate tax revenue during this period). This confirms the significant impact of utilising fiscal sovereignty instruments on municipal revenues. Notable differences were observed among various types of municipalities, with rural municipalities showing a greater propensity to apply tax preferences. The primary instrument utilised in this regard was the reduction of upper tax rates.

**Implications:** The research findings indicate a need for further, in-depth analysis of the long-term effects of exercising fiscal sovereignty, particularly in the context of local development and municipal competitiveness. Furthermore, they provide valuable information for policymakers and tax authorities, suggesting the potential necessity for modifying current regulations to optimise the municipal revenue system, considering the diverse needs and capabilities of different types of local government units.

**Originality/value:** This study makes a significant contribution through its comprehensive analysis of the effects of fiscal sovereignty application on a national scale, identification of differences in tax strategies among various types of municipalities, and provision of current quantitative data on the scale and nature of the utilisation of specific instruments. Consequently, the research findings can serve as a foundation for further analyses and support in shaping tax policy at both local and national levels.

**Keywords:** local taxes, real estate tax, tax system, fiscal sovereignty, local government entities

## 1. Introduction

Real estate tax is, in fiscal terms, one of the most important sources of municipalities' own revenue in Poland. Accordingly, its revenues are intended in particular to enable local authorities to perform the tasks and functions assigned to entities of the public finance sector. At the same time, municipal authorities, within the framework of their statutory powers (the so-called fiscal sovereignty), have the possibility to conduct local tax policy by treating real estate tax as its instrument. It is pointed out that the main objective of local tax policy is to fulfil the fiscal function of taxes. Nevertheless, their stimulative role is also emphasised, an example of which is the use of tax instruments to influence changes in the social and/or economic structure at municipal level (Wołowiec & Cienkowski, 2016, p. 314).

The aim of this article was to assess the significance of the fiscal sovereignty granted to municipalities in Poland in real estate tax from the perspective of its impact on their revenues. The study included a description of real estate tax as a local burden. The article applied analysis and criticism of the literature on the subject and legal acts as well as observation, comparison, measurement and descriptive statistics as research methods.

## 2. Characteristics of Real Estate Tax as a Local Fiscal Burden

Real estate tax is one of the oldest fiscal burdens, which in its modern form occupies a well-established position in many tax systems, including the one in Poland. The characteristics of this instrument allow it to be assigned to the category of property taxes. It is regulated in the Act of 12 January 1991 on local taxes and fees (Ustawa z dnia 12 stycznia 1991…) (hereinafter referred to as UPOL). Chapter 2 of UPOL, devoted exclusively to this tax, consists of only several extended articles. However, the enormity of the proceedings pending in the field of real estate tax indicates numerous uncertainties in the interpretation of the provisions governing it (Lewandowski, 2017, p. 62). The overwhelming number of legal disputes related to this seemingly niche tax led to the establishment of a distinct division within the Supreme Administrative Court, as of 1 January 2021, primarily focused on real estate tax cases (Kałążny, 2022, p. 46).

The definition of the concept of real estate is contained in the Polish legal system in Article 46 § 1 the Act of 23 April 1964 − Civil Code (Ustawa z dnia 23 kwietnia 1964…) and is to some extent reproduced in Article 4(1) of the Act of 21 August 1997 on real estate management (Ustawa z dnia 21 sierpnia 1997…). However, the term 'real estate' in the sense of the aforementioned laws is not the same as the subject of the analysed tax. The object of taxation is one of the most essential structural elements of any obligatory burden. Thus, it cannot be indicated by the legislator only in the name (real estate tax). For this reason, the object of real estate taxation was explicitly established in Article 2(1) of UPOL and does not entirely coincide with the concept of real estate as defined in other legal acts (Etel, 2012, pp. 92-95).

Therefore, pursuant to Article 2(1) and Article 4 of UPOL, the following real estate or construction objects are subject to real estate tax:

- land – on their area,
- buildings or parts thereof – on their usable area,
- structures or parts thereof which relate to the conduct of business activity – on their initial value determined for income tax purposes or on their market value (UPOL).

According to Article 3 (1) of UPOL, real estate taxpayers include persons, legal entities and organisational units, which are owners, autonomous holders, perpetual usufructuaries and, in certain situations, dependent holders of real estate owned by the State Treasury or a local government unit. Moreover, Article 5(1) of UPOL, by specifying the maximum annual rates for this tax, has determined the detailed types of taxable objects (Morawski & Kałążny, 2022, p. 18).

Real estate tax falls into the category of local fiscal burden. However, neither in the legal order of the European Union nor in the Polish legal system is there a universally binding definition of this group of taxes. Nevertheless, this concept is not alien to Polish law, as the legislator has used it several times in various legal acts (Pahl, 2017, p. 19).

Special attention should be given to Article 168 of the Constitution of the Republic of Poland of 2 April 1997 (Konstytucja Rzeczpospolitej Polskiej z dnia 2 kwietnia 1997…) (hereinafter referred to as Constitution RP), according to which local government units have the right to determine the amount of local taxes and fees to the extent specified in the law. This regulation directly implies the competences granted to local governments of the so-called fiscal sovereignty, which are, however, limited only to shaping the fiscal burden and not to establishing taxes. The cited provision is the implementation of commitments assumed by Poland at the time of ratification of the European Charter of Local Self-Government, drawn up in Strasbourg on 15 October 1985 (Przygodzka, 2014, pp. 334-335).

It should be noted that although the addressees of Article 168 of Constitution RP are all self-government units, in the Polish system of public finances only municipalities have partial fiscal sovereignty. As underlined by the Constitutional Tribunal in the judgment of 31 January 2013 (K 14/11) (Wyrok Trybunału Konstytucyjnego z dnia 31 stycznia 2013…), only this level receives revenues from local taxes and fees. The sources of municipalities' own revenues are set out in Article 4(1) of the Act of 13 November 2003 on revenues of local government units (Ustawa z dnia 13 listopada 2003…), which lists revenues from, among others, real estate tax. However, the fiscal sovereignty does not refer to all burdens listed in this provision. Only in the field of local taxes and fees and within the limits of competences precisely designated by the legislator, do municipalities have the right to regulate the elements of the tribute relation which determine the amount of these burdens (Dowgier et al., 2021).

Therefore, in the absence of a equivocal legal definition of local taxes, the attempts made in the literature to define this group of burdens should be regarded as purely theoretical considerations (Korolewska, 2021, p. 251). For example, it indicates that a burden can be recognised as fully local when the local government has:

- the freedom to impose it,
- the right to determine the tax base and the tax rate,
- the right to assess the tax to each taxpayer (in the case of direct taxation),
- the right to administer this burden,
- the right to the total revenue collected from it (Bird & Bahl, 2008, p. 8).

Since fiscal burdens constituting the income of local government units do not always fulfil all the above-mentioned characteristics, some literature indicates that the category of local taxes has narrower subject-matter boundaries than the term of self-government taxes. Self-government taxes occur at each level of local government (i.e. municipal, county and voivodeship). Local taxes, on the other hand, can only occur at municipal and county levels (Ofiarski, 2016, p. 266). Moreover, in the doctrine the opposite position is also presented, according to which such terms as local, self-government or municipal taxes may be treated as synonyms (Dowgier et al., 2021).

Nevertheless, the view can be taken that local taxes in the narrow sense of the term should have at least four basic characteristics:

- to constitute a source of revenue exclusively for the local self-governing unit (municipality or county),

- the payment of this tax should go directly to the bank account maintained to serve the budget of a particular unit,
- the bodies of this unit should be able to use the instruments of fiscal sovereignty,
- local authorities should be competent to resolve tax cases (Gajl, 1996, p. 25).

Keeping the above in mind, in the Polish fiscal system, real estate tax can be classified as a local burden in the narrow sense of the term. The tax authorities in this case are mayors and city presidents with certain granted powers that include fiscal sovereignty. These authorities also represent the lowest level of local government, i.e. municipalities. It should be noted that municipal authorities constitute the most numerous category of tax authorities in Poland, and currently there are 2477 of them (Komisja Standaryzacji Nazw Geograficznych poza Granicami Rzeczypospolitej Polskiej, n.d.).

It is also important to emphasise that real estate tax, as a property tax, is generally considered to be one of the best sources of fiscal revenue for local government. Property taxes provide local authorities with real fiscal power. For this category of local burden, the tax base is mostly relatively immovable. This feature contributes to the fact that revenues from property taxation prove to be relatively stable and predictable. Moreover, as a rule, they do not suffer from significant problems of fiscal fraud or tax evasion (Ambrosiano & Bordignon, 2006, p. 326). Therefore, real estate tax is crucial for the financial independence of local governments. This autonomy involves having secure, stable revenue sources and the freedom to manage these funds. The proportion of a local government's own revenues to its total revenues significantly impacts this autonomy. Generally, a higher share of own revenues indicates greater revenue autonomy. Moreover, this autonomy enables municipalities to implement their own tax policies, ensuring financial stability and benefiting the community (Szołno-Koguc, 2021, pp. 15-16). However, studies highlight that Poland's autonomous tax revenue in budgetary income is insufficient, leading to long-standing proposals for reforming the local tax system (Motek, 2022, p. 261).

## 3. Fiscal Sovereignty in the Field of Real Estate Tax

As already mentioned, a form of concretisation of the constitutional principle of self-government units’ independence is granting them a certain type of fiscal sovereignty, i.e. competence in modelling tribute burdens. However, from the above-cited Article 168 of Constitution RP, the right to independent creation of new local charges by local government units does not arise. Full fiscal sovereignty, including both the right to introduce taxes and to shape all their fundamental structural elements, is vested – based on Article 217 of Constitution RP – only in the legislator (Naleziński, 2021).

In the realm of real estate taxation, municipal councils are in particular empowered to determine the tax rates. This competence is exercised in a direct form, namely by setting the rates in a resolution, however, it is not of a full nature. The rates determined by the municipal council through a resolution must not surpass the maximum limits established by the legislator. Pursuant to Article 20(1)-(3) of UPOL, the upper limits of the rates are valorised annually. The basis for the change of the maximum rates is the consumer price index in the first half of the year in which the rates are changed, in relation to the analogous period of the previous year. Previous studies typically indicate that municipalities in Poland with larger, wealthier populations, especially cities, tend to have higher tax rates, whereas smaller, poorer, mainly rural municipalities, generally have lower tax rates (Dziuba, 2019, pp. 38-41).

As important as the competence of the municipal council to set tax rates within the statutory limits is the possibility to modify them within types of tax objects. Generally, municipal authorities should set rates for all categories of tax objects listed in Article 5(1) of UPOL. However, within the scope of the types so defined, it is possible to further subdivide (differentiate) them. In this subject, municipal bodies have been given quite a lot of freedom. In Article 5(2)-(4) of UPOL, the legislator has only indicated examples of differentiating factors, which include location, purpose or type of business activity (Dowgier et al., 2021).

Furthermore, municipalities have the possibility to introduce subject ex-emptions by resolution. This power derives from Article 7(3) of UPOL. Thus, the statutory exemptions listed in Article 7(1)-(2) of UPOL are not the only ones that an entity can be granted. Although it is a fundamental condition that the regulations implemented by the local authority have an exclusively subjective character, there is nothing to prevent them from covering only one taxpayer in the municipality at a time. This is because, potentially, every taxpayer with a particular taxable object will be entitled to the indicated exemption (Banasik, 2019, pp. 202-203).

In addition to the competence directly shaping the amount of the tax burden, municipalities also have powers concerning the terms of payment and the method of collecting real estate tax. As a general solution, local authorities have the possibility to order this tax by way of debt collection. Moreover, insofar as municipalities act as fiscal authorities, they can, to a certain extent, shape the amount of real estate tax revenue by issuing individual decisions in tax proceedings. Consequently, local fiscal bodies can initiate tax proceedings to ensure that the amount of revenue to the municipal budget is adequate. Revenue from local taxes makes it possible to fulfil the tasks assigned to municipalities. Therefore, possible irregularities in the calculation of the fiscal obligation by taxpayers should be considered undesirable. They may result from a different understanding of the law from the tax authorities (mainly due to the ambiguity of the law), or from a deliberate action by the taxpayer to reduce the tax liability in an unlawful manner. Thus, the described competence already falls into the area of power related to the administration of taxes and fees, rather than their formation by means of general solutions (Kornberger-Sokołowska, 2016, pp. 193-196).

In 2020–2021, in response to mitigating the effects of the COVID-19 pandemic, municipal councils were granted additional powers regarding real estate tax. In this period, municipalities had the possibility to introduce additional preferences in their area (including exemptions, reliefs and deferrals of installments in real estate tax) on the basis of the provisions of the so-called anti-crisis shield, adopted in connection with counteracting the effects of COVID-19 (Kałążny & Kamiński, 2020). Kańduła and Przybylska (2022, p. 87) showed that the response of municipal authorities to the COVID-19 crisis was varied, and only some municipalities took advantage of the additional powers granted to them.

At the same time, due to the lack of harmonisation of property tax within the European Union, it was difficult to reference foreign studies when analysing this burden. Recent research conducted in Poland on this topic considered, among other things, the diversity of local tax policies in municipalities and the intensity of the tools used within the scope of fiscal sovereignty granted to them. These studies indicated that municipalities applied their powers to fulfill both fiscal and non-fiscal functions (Felis & Otczyk, 2021, pp. 78-79).

Consequently, although the real estate tax generally has a uniform character throughout the country, the powers granted to municipal authorities in terms of the so-called fiscal sovereignty enable them to shape this burden to a certain extent. These competences are of particular importance both in terms of implementing local policy and ensuring the financial independence of municipalities. An analysis of the use of municipalities' taxing authority in the field of real estate tax and its financial consequences is presented further.

## 4. Analysis of the Use of Fiscal Sovereignty by Municipalities in the Field of Real Estate Tax and Its Financial Impact on Their Budgets

This study covered all municipalities in Poland, including 66 cities with county rights and 2411 (in 2018–2412) urban, rural and urban-rural municipalities. The analysis considered data from 2018 to 2023, which came from databases made available by the Ministry of Finance. The author employed methods of empirical cognition such as observation, comparison and measurement. The research additionally utilised methods of descriptive statistics.

Following from the previous considerations, the fiscal sovereignty in the field of real estate tax held by municipalities is mainly based on the possibility of granting tax preferences, which in the legal sense take the form of reduced rates, exemptions, write-offs of arrears as well as payment in instalments or deferment of payment dates. The common feature of these preferences is therefore the reduction of the tax liability and, consequently, also the reduction of potential municipal budget revenues. Thus, it is possible to determine the specific value of these preferences, expressed in the amount of municipal budget revenue foregone (Wołowiec, 2018, p. 37). Moreover, the literature distinguishes, out of the group of tax preferences, tax incentives referred to as tax expenditures, the application of which – in contrast to the so-called tax standard – is a manifestation of conducting an active tax policy. They serve public authorities to encourage taxpayers to undertake an action they desire or, on the contrary, to discourage undesirable behaviour. Consequently, their use directly implies a willingness to actively influence economic or social processes through mandatory burdens (Wyszkowska & Wyszkowski, 2021, pp. 105-106).

Consequently, the analysis of the value of foregone revenue from real estate tax first requires reference to the total revenue from this tax. The achieved revenue from real estate tax in 2018–2023 in comparison with other revenue of municipalities in Poland is presented in Figure 1. The collected information shows that revenue from real estate tax was gradually increasing during the analysed period. Moreover, due to the simultaneous increase in other revenues of municipalities, the share of revenues from this tax in total revenues in 2018-2023 fluctuated around 10%. In turn, the ratio of real estate tax revenue to municipalities' own revenue varied between 19% and 22% during this period.

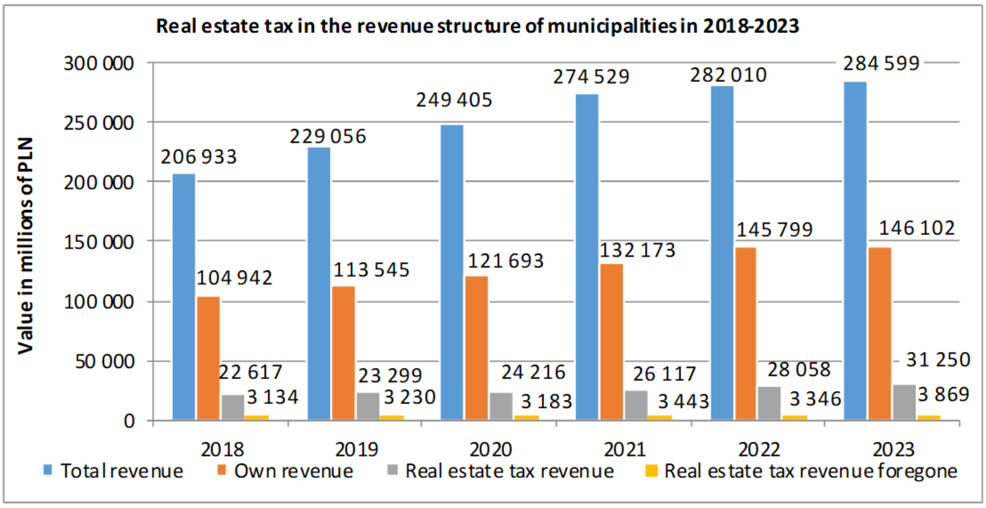


Fig. 1. Comparison of the value of real estate tax revenue of municipalities in Poland (including cities with county rights) to their total revenue, own revenue and foregone revenue from real estate tax in 2018-2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *Sprawozdania budżetowe*).

On the other hand, the value of revenue foregone from real estate tax in 2018–2023 amounted to a total of over PLN 20.2 billion, which represents approximately 13% of real estate tax revenues during this period. Nevertheless, when considering the issue of foregone revenue, it is important to note significant differences between the values obtained by various types of municipalities (Figures 2 to 5). The analysis shows that the share of foregone revenue in real estate tax revenue was significantly lower in cities with county rights compared to other types of municipalities. The highest share, exceeding 20%, was observed in rural municipalities. These results clearly suggest that rural municipalities utilised their authority to grant tax preferences to a greater extent than other municipalities, which had a larger impact on their finances. In all types of municipalities, the greatest impact on reducing their real estate tax revenues was the lowering of upper tax rates. Other preferences, such as tax exemptions, cancellation of tax arrears, installment payments, and tax deferment, were considerably less influential in this context.

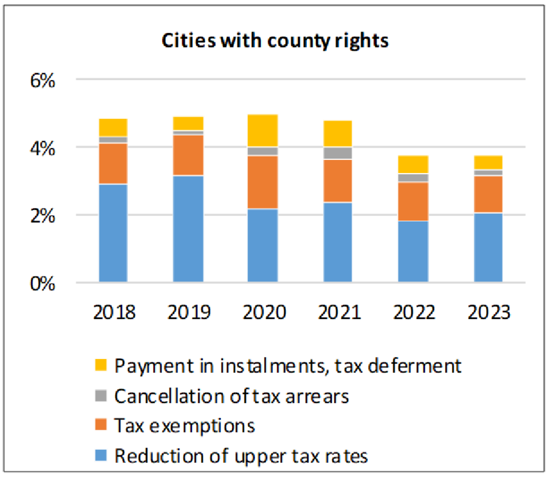


Fig. 2. Share of the value of foregone real estate tax revenue in revenue from real estate tax in cities with county rights in 2018-2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). Sprawozdania budżetowe).

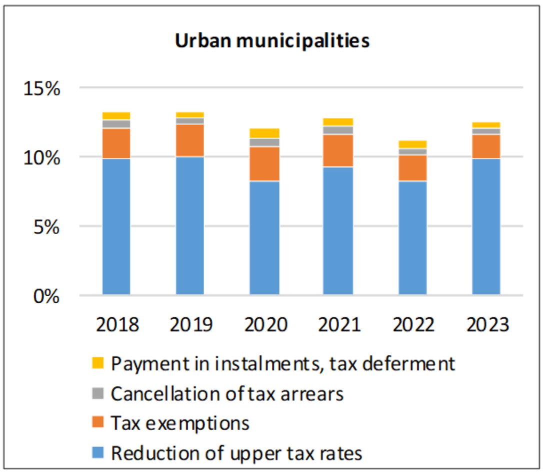


Fig. 3. Share of the value of foregone real estate tax revenue in revenue from real estate tax in urban municipalities in 2018-2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *Sprawozdania budżetowe*).

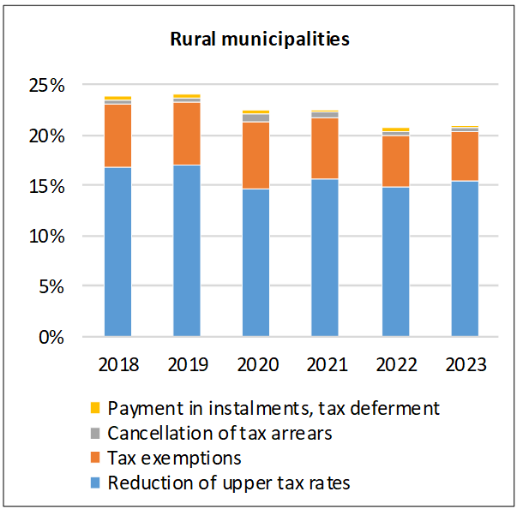


Fig. 4. Share of the value of foregone real estate tax revenue in revenue from real estate tax in rural municipalities in 2018-2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *Sprawozdania budżetowe*).

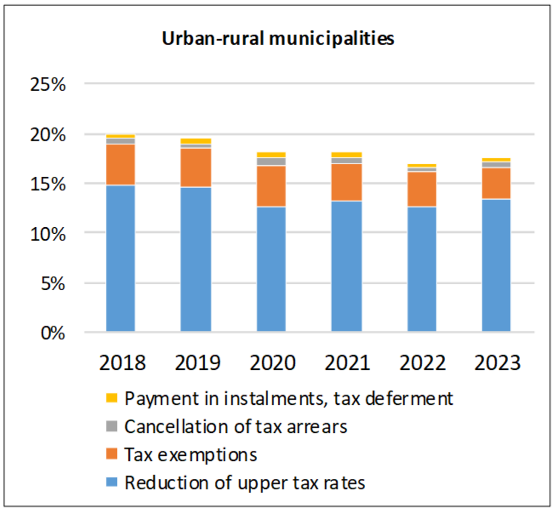


Fig. 5. Share of the value of foregone real estate tax revenue in revenue from real estate tax in urban-rural municipalities in 2018-2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *Sprawozdania budżetowe*).

The highest amount of revenue foregone by municipalities due to the reduction of upper real estate tax rates in the analysed period was recorded in 2023. Hence, this study examined thoroughly the specified year from this perspective, comparing it to 2022. Table 1 shows the average real estate tax rates versus their maximum levels in municipalities that do not differentiate rates for a certain type of tax subject. The approach adopted is justified in view of the substantial number of such municipalities (representing between 70.90% and 100% of all municipalities depending on the rate and year).

Table 1. Comparison of average real estate tax rates in the group of municipalities not differentiating real estate tax rates to their upper limits in 2022 and 2023 (A – Average tax rates, U – Upper limits, S – Share of average rate in max rate)

| Type of subject of real estate tax | | 2022 | | | 2023 | | |
|---|---|---|---|---|---|---|---|
| | | A | U | S | A | U | S |
| *Land* | Related to business activities, regardless of their classification in the land and building register | 0.91 | 1.03 | 88.35% | 1.02 | 1.16 | 87.93% |
| | Under surface standing waters or surface flowing waters of lakes and artificial reservoirs | 4.91 | 5.17 | 94.97% | 5.44 | 5.79 | 93.96% |
| | Other | 0.38 | 0.54 | 70.37% | 0.43 | 0.61 | 70.49% |
| | Undeveloped land included in the revitalisation area | 2.96 | 3.40 | 87.06% | 3.29 | 3.81 | 86.35% |
| *Buildings* | Residential | 0.73 | 0.89 | 82.02% | 0.82 | 1.00 | 82.00% |
| | Business and residential buildings or parts thereof occupied for business purposes | 22.05 | 25.74 | 85.66% | 24.40 | 28.78 | 84.78% |
| | Occupied for the purpose of trading in certified seed | 11.17 | 12.04 | 92.77% | 12.39 | 13.47 | 91.98% |
| | Related to the provision of health care services | 4.95 | 5.25 | 94.29% | 5.48 | 5.87 | 93.36% |
| | Other | 6.32 | 8.68 | 72.81% | 7.00 | 9.71 | 72.09% |
| *Structures* | | 2% | 2% | 100% | 2% | 2% | 100% |

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *SP-1 bazy danych i opracowania*) and the Announcements of the Minister of Finance, Funds and Regional Policy of 22 July 2021 (Obwieszczenie Ministra Finansów, Funduszy i Polityki Regionalnej z dnia 22 lipca 2021…) and of 28 July 2022 (Obwieszczenie Ministra Finansów, Funduszy i Polityki Regionalnej z dnia 28 lipca 2022…) on upper limits of specific rates of local taxes and charges for the years 2022-2023.

The analysis shows that the average reductions in real estate tax rates for these local authorities in 2022–2023 were not at a high level. The highest reduction (i.e. by ca. 29.63%) concerned the rate for the other land in 2022 and involved a reduction from PLN 0.54 per 1 m2 of area to the average level of ca. PLN 0.38 in the studied municipalities (with a standard deviation of ca. PLN 0.12). In 2023, the maximum analysed rate rose to PLN 0.61, even though the average reduction maintained a similar level to that of 2022, ca. 29.51%. Thus, the rates for the 'other land' in the studied municipalities were characterised by a small differentiation (variability) in terms of their amounts (as the classic coefficient of variation for the population was 0.33 in 2022 and 0.32 in 2023); the median for this rate was PLN 0.40 in 2022 and PLN 0.45 in 2023, while the minimum value in both 2022 and 2023 was only PLN 0.05. Nevertheless, the rate at the maximum level (i.e. PLN 0,54 in 2022 and PLN 0.61 in 2023) was dominant and remained unchanged during the analysed period in around 15% of municipalities not differentiating this rate. Consequently, the distribution of rates for 'other land' exhibited a negative skewness, indicating that the group of municipalities analysed was dominated by rates for this type of tax subject higher than the arithmetic mean. In addition, the negative kurtosis suggests that this distribution is flattened (relative to a normal distribution).

It is important to mention that for business properties, which generally incur the highest real estate taxes, the variation in rates among the surveyed municipalities was even less pronounced than for 'other land'. The variability in the case of the rate for business-related structures was actually non-existent in the group of municipalities that did not differentiate this rate and was at the maximum level in the period 2022–2023 (i.e. 2% of the value of the structure). For business-related land, the rates deviated from the arithmetic mean, amounting to ca. PLN 0.91 in 2022 and ca. PLN 1.02 in 2023, by an average of ca. PLN 0.11 and PLN 0.14, respectively. Moreover, the median rate was PLN 0.95 in 2022 and increased to PLN 1.05 in 2023. On the other hand, for buildings related to business activities, the average rate adopted by the surveyed municipalities was ca. PLN 22.05 per 1 m2 of usable area in 2022 (with a standard deviation of ca. PLN 2.98), and the median was PLN 22.60. In 2023, the average rate rose to ca. PLN 24.40 (with a standard deviation of ca. PLN 3.51) and the median reached PLN 25.00. Both in the case of land buildings owned by entrepreneurs in 2022-2023, the dominant value was the maximum rate for these types of tax subject. At the same time, these distributions are characterised by negative skewness and leptokurtic. The descriptive statistics of the selected rates are presented in Table 2.

Table 2. Summary descriptive statistics of selected real estate tax rates in the group of municipalities not differentiating real estate tax rates in 2022 and 2023

| Measurements | Values of tax rates: | | | | | |
|---|---|---|---|---|---|---|
| | for other land | | for land related to business activities | | for buildings related to business activities | |
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Arithmetic mean | 0.38 | 0.43 | 0.91 | 1.02 | 22.05 | 24.40 |
| Standard deviation | 0.12 | 0.14 | 0.11 | 0.14 | 2.98 | 3.51 |
| Classical coefficient of variation | 0.33 | 0.32 | 0.12 | 0.13 | 0.14 | 0.14 |
| Measure of asymmetry (skewness) | -0.33 | -0.35 | -1.23 | -1.11 | -0.79 | -0.74 |
| Measure of concentration (kurtosis) | -1.02 | -0.98 | 1.50 | 1.13 | 0.28 | 0.09 |
| Minimum | 0.05 | 0.05 | 0.35 | 0.37 | 8.00 | 9.20 |
| Maximum | 0.54 | 0.61 | 1.03 | 1.16 | 25.74 | 28.78 |
| Dominant | 0.54 | 0.61 | 1.03 | 1.16 | 25.74 | 28.78 |
| Median | 0.40 | 0.45 | 0.95 | 1.05 | 22.60 | 25.00 |

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *SP-1 bazy danych i opracowania*).

It is also important to highlight that while the maximum rate dominated the real estate tax rates discussed, most municipalities in Poland either differentiated or adopted a rate lower than the maximum (Figures 6 and 7). When examining different types of municipalities, it was found that tax preferences for the specified rates in 2022-2023 were utilised by: 45.45%-60.61% of cities with county rights, 73.73%-81.78% of urban municipalities, 82.98%-90.95% of rural municipalities, and 83.46%-91.29% of urban-rural municipalities. Consequently, the lesser use of these preferences in cities with county rights corresponds to a reduced share of foregone real estate tax revenue in revenue from this tax compared to other types of municipalities. Additionally, for most types of municipalities there was a slight decline in the number applying these preferences in 2023 compared to 2022.

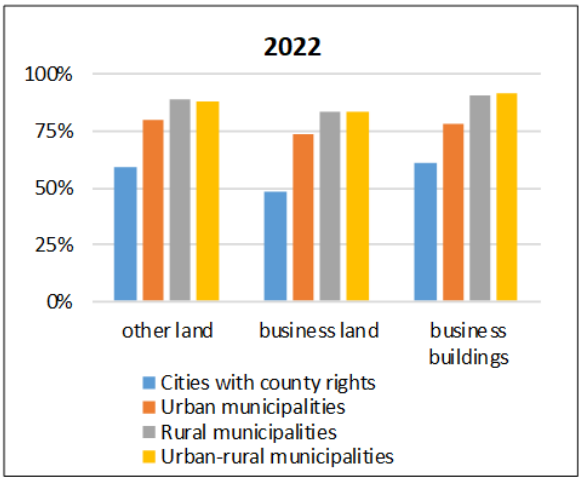


Fig. 6. Percentage of municipalities applying tax preferences to real estate tax rates in 2022

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *SP-1 bazy danych i opracowania*).

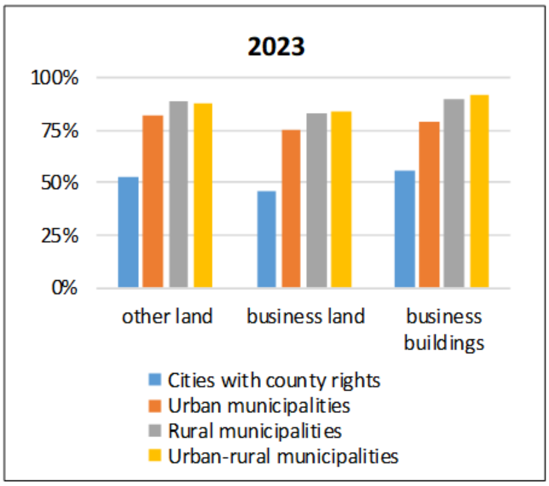


Fig. 7. Percentage of municipalities applying tax preferences to real estate tax rates in 2023

Source: own work based on data from the Ministry of Finance (Ministerstwo Finansów (n.d.). *SP-1 bazy danych i opracowania*).

## 5. Conclusion

To summarise the above considerations, it should be stated that real estate tax constitutes a significant source of municipalities’ own revenues. At the same time, municipalities have fiscal sovereignty in this area, which is limited only to those powers that have been explicitly indicated in the legislation. Nevertheless, as the analysis shows, the application of the fiscal sovereignty granted to municipalities has a significant impact on their revenues. From this perspective, the use of fiscal sovereignty to grant tax preferences resulted in municipalities foregoing a significant amount of potential revenue. Despite this, the ability to set tax rates and grant exemptions allows municipalities to tailor their tax policy to local needs and conditions, which can be seen as a positive aspect for local governance and financial independence. Therefore, the conducted study allowed for the following conclusions:

- in 2018–2023, the share of real estate tax revenue in relation to the total revenue of municipalities remained stable at around 10%. While this is beneficial for financial stability, it highlights the limited financial independence of municipalities since their important own revenue source, for which municipalities have instruments of fiscal sovereignty, constitutes only 10% of the total;
- the use of fiscal sovereignty in real estate tax reduced municipal revenues in Poland by PLN 20.2 billion (13% of total municipal real estate tax revenue) between 2018 and 2023, confirming its significant impact on municipal finances;
- in 2018–2023, rural municipalities experienced the highest percentage of foregone revenue relative to their real estate tax revenues, exceeding 20%. Following them were urban-rural municipalities with over 15%, and urban municipalities with more than 10%. Cities with county rights recorded the smallest share, at ca. 4%. This indicates that rural municipalities utilised their authority to grant tax preferences far more extensively than cities;
- the instrument with the greatest impact on the municipalities' budget was the reduction of upper fiscal rates. In the years 2022–2023, the maximum value dominated the analysed rates, with most values clustering above the average. Both rural and urban-rural municipalities applied real estate tax rate preferences much more frequently than cities.

The conclusions can contribute to recognising the greater role that fiscal sovereignty in real estate tax plays in rural municipalities compared to cities, from the perspective of their revenues. Consequently, this analysis may serve as a foundation for additional studies on the subject. It is essential to acknowledge the study's limitations, which were constrained to a specific period, particular tax rates, and a statistical approach. Future research could broaden its scope to understand why rural municipalities leverage fiscal sovereignty more extensively than cities.

It is also important to highlight that, according to government publications, amendments to real estate tax regulations and local government financing rules are scheduled to take effect on January 1, 2025 (Sejm RP, 2024) . Therefore, once these new regulations are implemented, this study's findings could be used as a reference point to evaluate how the new legal framework compares with the current one in terms of fiscal sovereignty usage and its impact on municipal revenue.

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## Wpływ władztwa podatkowego w zakresie podatku od nieruchomości na dochody gmin


### Streszczenie

**Cel:** Celem artykułu jest ocena znaczenia władztwa podatkowego przyznanego gminom w Polsce w zakresie podatku od nieruchomości z perspektywy wpływu na ich dochody. W ramach przeprowadzonego badania określono skalę i charakter wykorzystania instrumentów władztwa podatkowego przez różne typy gmin oraz analizę skutków finansowych tych działań.

**Metodyka:** Badaniem objęto wszystkie gminy w Polsce (tj. miasta na prawach powiatu oraz gminy miejskie, wiejskie i miejsko-wiejskie), wykorzystując dane udostępnione przez Ministerstwo Finansów za lata 2018-2023. Zastosowano takie metody poznania empirycznego, jak: obserwacja, porównanie i pomiar, a także posłużono się metodami statystyki opisowej.

**Wyniki:** Z przeprowadzonego badania wynika, iż w latach 2018-2023 stosowanie przez gminy władztwa podatkowego skutkowało zmniejszeniem ich dochodów łącznie o 20,2 mld zł (tj. 13% całkowitych wpływów z podatku od nieruchomości w tym okresie). Tym samym potwierdzono istotny wpływ wykorzystania instrumentów z zakresu władztwa podatkowego na dochody gmin. Zaobserwowano znaczące różnice między typami gmin z większą skłonnością gmin wiejskich do stosowania preferencji podatkowych. Głównie stosowanym instrumentem w tym zakresie było obniżanie górnych stawek podatkowych.

**Implikacje:** Wyniki badania wskazują na potrzebę dalszej, pogłębionej analizy długoterminowych skutków stosowania władztwa podatkowego, szczególnie w kontekście rozwoju lokalnego i konkurencyjności gmin. Ponadto dostarczają cennych informacji dla decydentów politycznych i organów podatkowych, sugerując zasadność potencjalnej modyfikacji obecnych regulacji w celu optymalizacji systemu dochodów gminnych z uwzględnieniem zróżnicowanych potrzeb i możliwości różnych typów jednostek samorządu terytorialnego.

**Oryginalność/wartość:** Przeprowadzone badanie wnosi istotny wkład poprzez kompleksową analizę skutków stosowania władztwa podatkowego na skalę krajową, identyfikację różnic w strategiach podatkowych różnych typów gmin oraz dostarczenie aktualnych danych ilościowych na temat skali i charakteru wykorzystania poszczególnych instrumentów. Z tego względu, wyniki badania mogą służyć jako podstawa do dalszych analiz i wsparcie w kształtowaniu polityki podatkowej na poziomie lokalnym i krajowym.


**Słowa kluczowe:** podatki lokalne, podatek od nieruchomości, system podatkowy, władztwo podatkowe, jednostki samorządu terytorialnego